HarDee

# HARDEE FARMS INTERNATIONAL LTD.

## ANNUAL REPORT

## FISCAL YEAR ENDED JUNE 3

1967

# Hardee Farms International Ltd.

BOARD OF DIRECTORS

| | |
|---|---|
| C. G. Cockshutt, M.C. | Brantford – old |
| A. W. G. Elve | Toronto |
| D. R. C. Harvey, Q.C. | Toronto – conversion |
| W. G. Horsey | Toronto |
| J. A. McKechnie 2nd preferred. | Toronto |
| R. J. Morrison 1st pfd | Toronto mtl |
| J. J. Phillips | Toronto |
| Jeffery — * G. E. Phipps | Toronto |
| D. L. Sinclair 1st pref. | Toronto |

** Deceased, September 9, 1967*

EXECUTIVE OFFICERS

J. J. Phillips, *President*
A. W. Walker, *Vice President—Finance, Secretary*

SUBSIDIARIES AND DIVISIONS

| | |
|---|---|
| Hardee Farms Ltd. | *Sherrington, Quebec* |
| Holland River Gardens Co. Limited | *Bradford, Ontario* |
| Ottawa River Farms Limited | *Alfred, Ontario* |
| Tropical Farms Division | *Lake Placid, Florida* |

AUDITORS

| | |
|---|---|
| McDonald, Currie & Co., Chartered Accountants | *Toronto* |

SOLICITORS

| | |
|---|---|
| Holden, Murdoch, Walton, Finlay, Robinson, Pepall & Harvey | *Toronto* |

BANKERS

Bank of Montreal
Canadian Imperial Bank of Commerce
First National Bank of Miami
First Bank of Lake Placid

REGISTRAR AND TRANSFER AGENT

The Canada Trust Company, *Toronto, Montreal and Winnipeg*

HEAD OFFICE

*Bradford, Ontario, Canada. Telephone Toronto 364-5436*

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# Report to Shareholders

## Operations

The Company's consolidated earnings from operations during the year ended June 3, 1967, amounted to $392,813, reflecting the best operating results since the formation of your Company eight years ago. This represents an improvement of $117,098 over the comparable figure of $275,715 a year earlier.

After deducting from this operating profit the corporate debt interest ($317,490) and other non-operating charges ($12,651) net earnings for the year, exclusive of depreciation, stand at $62,672. Last year the comparable net earnings amounted to $4,048.

Sales volume during the year reached $4,580,695. This is an increase of approximately 10% over the 1966 figure of $4,175,095.

Two main factors contributed to the improved operating results. Last year was a relatively good one for Bradford marsh vegetable growers and your Company, with its 225 planted acres in that area, shared in the prosperity of this favourable farming season. The other major factor in the improved operations was the continued growth of the Company's processed potato and frozen food business. This activity is conducted mainly with the restaurant and institutional trades, and has reached the point where presently overloaded production facilities must be replaced with modern, higher capacity equipment. A new equipment installation program is expected to be completed during September, providing for continued growth in this expanding phase of the business.

Cattle ranching in Florida was conducted on a satisfactory basis. The scale of that operation is, of necessity, limited by the Company's financial ability to invest in livestock and improved pastures. Consequently, only about 50% of the 13,000 acres in Florida is allocated fully to beef production. Most of the remaining land is in an unimproved state, but we have recently negotiated leases on approximately 5,000 of these acres, under which it is a condition that the lessee will make improvements which the Company cannot do independently. The revenue anticipated from this source will be helpful as a set-off against carrying costs heretofore being absorbed in respect of these lands.

During September, 1966, tree plantings were completed in the 255 acre Florida citrus grove, in which your Company has a 50% equity interest. The trees are growing well, and the grove is in good condition.

## Financial

An improvement of $655,423 in working capital was realized during the year, so that this balance amounted to $1,153,937 at June 3, 1967, with a current ratio of 3 to 1. The weakness which once existed in this critical area has been overcome, and the confidence, so essential to the Company's future progress, of both customers and suppliers has been established. In this strengthening of working capital over the past few years, the co-operation of the Company's major creditors is acknowledged. Of particular significance has been the deferment of interest payments by the Canadian banks and, in this regard, it might be noted that payments of

$20,000 and $50,000 in the 1966 and 1967 fiscal years were made against this obligation by the Company. It is hoped that payment of a larger amount will be permitted by results of the current fiscal year, as directors and management are keenly aware of the fact that the Company's long term debt is still excessive.

In my report of a year ago, I referred to efforts being made to reorganize the debt structure of the Company which would, in turn, reduce the interest cost attaching to these long term obligations. The objective was to establish a basis which would recognize the Company's limited, but strengthening, ability to pay, and which would simultaneously permit longer term growth and profitable development of the business. The success of our proposals was dependent on acceptance by the Company's largest creditors—the Canadian banks. Negotiations were prolonged and, unfortunately, we must report that the results we hoped for were not achieved.

Further, during the negotiations relating to financial reorganization, the Company complied with a bank request and once more contacted all the long term creditors to see what new concessions they might be prepared to make. In one way or another, each of these creditors stated a willingness to co-operate by agreeing to accept either compromise settlements for the total of their accounts, or by extending the term of their obligations. In the final analysis, the Company was not able to accept their proposals, except in the case of the major creditor in this group—The Connecticut Mutual Life Insurance Company, of Hartford—which holds a first mortgage on the Company's Florida property in an amount of $1,556,500. This institution agreed to a three-year postponement of the $80,000 annual principal payments on two conditions, namely: the interest rate was to be increased from 6½% to 6¾%, and the total amount of proceeds from any land sales in Florida was to be applied in reduction of their first mortgage. The mortgage modification agreement incorporating these provisions was executed after the close of the Company's fiscal year.

Future

Confronted with this situation—in which the Canadian banks did not accept a longer term debt modification plan, and Connecticut Mutual required total proceeds from any Florida land sales for application against their first mortgage loan—your Directors were left with no alternative but to revise the Company's longer term plans. Specifically, this meant that plans to gradually develop unimproved properties were set aside. It also meant that the Company would have to centre its attention on selling a considerable part of its land holdings over the next few years, even though a financial sacrifice might be experienced. Accordingly, we have designated those assets which are being held for sale, and they are set out as a separate item on the balance sheet in an amount of $7,505,926. When these sales have been made, and the long term debt is reduced to a more operationally balanced level, the Company can be expected to generate a sufficient cash flow to allow for more intensive use of the remaining assets.

Because of the significance of this creditor-imposed policy change, I feel some enlargement

on the nature and use of the Company's land assets may be helpful in understanding the action that is now underway. At the risk of repetition, it should be pointed out again that the Company purchased too much land in its formative years. Moreover, in retrospect, there was inadequate planning for the profitable development of those original 24,000 acres. Consequently, the land acquisition cost was compounded by desultory development and experimental programs which involved substantial sums of money without a proven program as to how these borrowed funds would be repaid. This assertion is made only to focus a proper perspective on the origin of the Company's current problem. Today, therefore, even though the operations are profitable, shareholders must realize that the market dilution which has taken place in their equity stems from these inherited conditions. Recapture of this lost value through the Company's continued operating progress cannot be fairly projected at this time because of the demanding requirements for debt retirement.

Following is a summary of the Company's land assets and a brief description of their application in the business:

**Used in Operations**

a) Lake Placid, Florida—approximately 5,000 acres.
This land is maintained as improved pasture and is used for beef production. It also includes a feed mill and feed lots.

b) Bradford, Ontario—approximately 300 acres.
This land is muck and peat soil in the Holland Marsh and is used for growing fresh vegetables—carrots, onions, potatoes, lettuce, beets, parsnips and radishes. It also includes storage facilities and a potato processing and vegetable packaging plant.

c) Sherrington, Quebec—approximately 150 acres.
This land is muck soil and is used for growing fresh vegetables—carrots, onions and potatoes. It also includes a packaging plant and storage facilities.

**Not Used in Operations**

a) Lake Placid, Florida—approximately 8,000 acres.
All of this acreage is unimproved land and about 60% is in its native condition. Part of this land was referred to earlier in this report when we stated that about 5,000 of these acres were under lease. We are working to negotiate outright sale or lease-option contracts on all of this acreage.

b) Alfred, Ontario—approximately 4,500 acres.
At this property about 500 acres are in a developed state and these are under lease. The balance of the land is rough bush and without road access. It requires clearing, ditching

and development work to create any commercial value. One large storage building and a few smaller ones are at this location.

c) Napierville, Quebec—approximately 1,700 acres.
About 800 acres on this farm have been brought to a developed state, and in past years the Company has grown carrots, onions and potatoes. However, since 1963 the Company has not considered it to be a practical proposition, and the bulk of the property has been leased to various parties since that time. Two large storage buildings located on the property have also been leased during the past two years. This property is about one mile back from the nearest county road, and access is gained only by a private roadway constructed by the Company in 1959.

Many of the properties in the above category could be good assets. However, it must be recognized that the Company just hasn't had the finances to properly develop and operate them.

Summary

In summary, the Company has been able to conduct both its vegetable and cattle business efficiently and profitably. Further, it expects that this will continue. The amount of profits, however, are not likely to be sufficient to retire the principal of long term debt in the near future. Nonetheless, this job must be done. Selling presently unused assets is the means by which it will be achieved and thereby contribute to improvement in the outlook for future profits.

Finally, this report on your Company would not be complete without referring to the fine co-operation of all employees during the past year. Your Directors wish to take this opportunity to express their appreciation to the personnel for their helpful contribution and loyal support in the Company's endeavours.

On behalf of the Board

J. E. Phillips

*President*

# Consolidated Balance Sheet

as at June 3, 1967

## Assets

| CURRENT ASSETS | 1967 | 1966 |
|---|---|---|
| Cash | $ 128,499 | 35,387 |
| Accounts receivable | 335,058 | 299,876 |
| Inventories— | | |
| Produce and supplies—at lower of cost or replacement cost | 189,516 | 174,393 |
| Beef cattle—at realizable value | 949,575 | 882,665 |
| Containers—at cost, less amounts written off | 59,001 | 72,992 |
| Prepaid expenses— | | |
| Current crop | 38,961 | 76,763 |
| Other | 29,623 | 13,193 |
| | $ 1,730,233 | 1,555,269 |
| INVESTMENT IN AFFILIATED COMPANY | | |
| Shares and debentures—at cost | $ 102,000 | 102,000 |
| FIXED ASSETS (note 2) | $ 4,851,371 | 11,743,211 |
| ASSETS HELD FOR SALE (note 3) | $ 7,505,926 | — |
| OTHER ASSETS | | |
| Organization and financing expense | $ 574,996 | 574,996 |
| Excess of purchase price of shares of subsidiaries over book value thereof | 352,367 | 953,180 |
| | $ 927,363 | 1,528,176 |
| | $15,116,893 | 14,928,656 |

## Liabilities

| | 1967 | 1966 |
|---|---|---|
| CURRENT LIABILITIES | | |
| Bank advances—secured by beef cattle | $ 275,820 | 232,474 |
| —secured by collateral mortgages | — | 435,695 |
| Accounts payable and accrued liabilities | 286,014 | 316,624 |
| Current instalments of long term debt (note 4) | 14,462 | 71,962 |
| | $ 576,296 | 1,056,755 |
| LONG TERM DEBT, less current instalments (note 4) | 5,722,595 | 5,135,696 |
| | $ 6,298,891 | 6,192,451 |

## Shareholders' Equity

| | 1967 | 1966 |
|---|---|---|
| CAPITAL STOCK (note 5) | | |
| Authorized— | | |
| 49,448 first preferred shares of the par value of $100 each, issuable in series | | |
| 42,285 6½% non-cumulative second preferred shares of the par value of $100 each, redeemable at par | | |
| $4,000,000 common shares of no par value | | |
| Issued and fully paid— | | |
| 9,198 6½% first preferred shares, Series A redeemable at $120 per share | $ 919,800 | 919,800 |
| 514 second preferred shares | 51,400 | 51,400 |
| 1,738,687 common shares (1966—1,713,188 shares) | 7,626,881 | 7,607,756 |
| CONTRIBUTED SURPLUS | 392,342 | 392,342 |
| DEFICIT | (172,421) | (235,093) |
| | $ 8,818,002 | 8,736,205 |
| | $15,116,893 | 14,928,656 |

Signed on behalf of the Board

J. J. PHILLIPS, *Director*

GRANT HORSEY, *Director*

## Consolidated Statement of Earnings

for the year ended June 3, 1967

| | 1967 | 1966 |
|---|---|---|
| SALES | $4,580,695 | 4,175,095 |
| COST OF SALES AND OTHER EXPENSES (note 6) | $4,187,882 | 3,899,380 |
| EARNINGS FROM OPERATIONS | $ 392,813 | 275,715 |
| Interest | 317,490 | 305,421 |
| Loss (profit) on sale of fixed assets | 12,651 | (33,754) |
| | $ 330,141 | 271,667 |
| NET EARNINGS FOR THE YEAR (note 7) | $ 62,672 | 4,048 |

## Consolidated Statement of Deficit

(Since re-organization of June 1, 1963)
for the year ended June 3, 1967

| | 1967 | 1966 |
|---|---|---|
| BALANCE—BEGINNING OF YEAR | $235,093 | 239,141 |
| Net earnings for the year | 62,672 | 4,048 |
| BALANCE—END OF YEAR | $172,421 | 235,093 |

# Consolidated Statement of Source and Application of Funds

for the year ended June 3, 1967

| | 1967 | 1966 |
|---|---|---|
| FUNDS WERE OBTAINED FROM: | | |
| Net earnings for the year | $ 62,672 | 4,048 |
| Add: Charges not requiring outlay of funds— | | |
| Interest deferred | 133,038 | 159,902 |
| Loss (profit) on sale of fixed assets | 12,651 | (33,754) |
| | $ 208,361 | 130,196 |
| Proceeds from sale of fixed assets | $ 17,947 | 415,935 |
| Less: Portion represented by investment in affiliated company | — | 102,000 |
| | $ 17,947 | 313,935 |
| Deferral of amounts previously included with current liabilities: | | |
| Balance of bank loans secured by collateral mortgages | 435,695 | |
| Mortgage instalments | 57,500 | — |
| Issue of shares for cash | — | 20,000 |
| | $ 511,142 | 333,935 |
| | $ 719,503 | 464,131 |
| FUNDS WERE APPLIED TO: | | |
| Retirement of long term debt | 20,212 | 219,989 |
| Purchase of fixed assets | 43,868 | 44,048 |
| | $ 64,080 | 264,037 |
| INCREASE IN WORKING CAPITAL | $ 655,423 | 200,094 |
| WORKING CAPITAL—BEGINNING OF YEAR | $ 498,514 | 298,420 |
| WORKING CAPITAL—END OF YEAR | $1,153,937 | 498,514 |

# Notes to Consolidated Financial Statements

for the year ended June 3, 1967

**1. Foreign Exchange** Individual assets and liabilities in U.S. dollars have been converted at par and an adjustment has been made in the accounts to give effect to the conversion of net current assets in U.S. dollars to Canadian dollars at the rate of exchange prevailing at June 3, 1967.

**2. Fixed Assets** Fixed assets are as follows:

| | Held for sale (note 3) | In use | Total | 1966 |
|---|---|---|---|---|
| Buildings and equipment—at cost, less amounts written off . . . . . | $ 987,510 | 2,222,343 | 3,209,853 | 3,212,274 |
| Accumulated depreciation . . . . . | 180,047 | 613,772 | 793,819 | 809,513 |
| | $ 807,463 | 1,608,571 | 2,416,034 | 2,402,761 |
| Land. . . . . . . . . . . . . . . . | $ 6,097,650 | 3,242,800 | 9,340,450 | 9,340,450 |
| Total . . . . . . . . . . . . . . . | $ 6,905,113 | 4,851,371 | 11,756,484 | 11,743,211 |

Land in Canada has been valued on the basis of an appraisal dated July 11, 1962 by Mr. N. Porter, realtor, of Bradford, Ontario and in Florida on the basis of an appraisal dated August 31, 1962 by Messrs. R. P. Dunty and E. Nelson, realtors, of Lake Placid, Florida. The surplus of $5,273,919 resulting from these appraisals was applied in the year ended June 1, 1963 to write down certain items of plant and equipment and to write off "deferred farm costs".

**3. Assets held for sale** The assets shown under this heading are as follows:

| | |
|---|---|
| Fixed assets (note 2) . . . . . . . . . . . . . . . . . . . . . . . . . . . | $6,905,113 |
| Related excess of purchase price of shares of subsidiaries over book value thereof . . . . . . . . . . . . . . . . . . . . . . . . . . . | 600,813 |
| | $7,505,926 |

This amount represents the book value of assets which the Company intends to sell in an orderly manner to retire long term debt. The period of time for disposal and the proceeds are dependent upon future market conditions. Accordingly the amounts shown may not represent realizable values which may be more or less than the book value.

**4. Long term debt**

| | Current portion | Long term portion | Total |
|---|---|---|---|
| 6¾% mortgage due September 20, 1980 payable $40,000 semi-annually commencing January 1, 1970 . | — | 1,556,500 | 1,556,500 |
| Lien contracts . . . . . . . . . . . . . . . . . . | 9,000 | 37,674 | 46,674 |
| 6% promissory note due January 1, 1981 payable $5,462 per annum . . . . . . . . . . . . . . . . | 5,462 | 71,003 | 76,465 |
| 6½% serial debentures due June 15, 1968. . . . . . | — | 50,000 | 50,000 |
| 6% unsecured notes due July 31, 1968 . . . . . . . | — | 95,000 | 95,000 |
| 6% convertible debentures due June 1, 1971. . . . . | — | 176,152 | 176,152 |
| | 14,462 | 1,986,329 | 2,000,791 |
| Bank loans and deferred interest thereon—secured by collateral mortgages . . . . . . . . . | — | 3,736,266 | 3,736,266 |
| | 14,462 | 5,722,595 | 5,737,057 |

a) The long term portion includes $5,102,447 payable in U.S. funds.

b) The terms of the mortgage due September 20, 1980 were modified by agreement subsequent to June 3, 1967. This agreement provides that the rate of interest payable be increased to 6¾% from 6½% and principal instalments aggregating $257,500 otherwise payable prior to January 1, 1970 be postposed to become due September 20, 1980. The modified terms are reflected in the above schedule.

c) 6% convertible debentures may be converted into common shares at the option of the holders at any time prior to June 1, 1971 on the basis of one common share for each 75c of the principal amount thereof to the extent of 25% of such principal amount for each full year elapsed from June 1, 1964. Interest on these debentures has been waived contingent upon the principal being paid when due and, as at June 3, 1967, the contingent liability in respect of interest on the debentures amounted to approximately $32,000.

5. Capital Stock

Of the authorized and unissued shares, 234,869 common shares are reserved against the exercise of the conversion right attaching to 6% convertible debentures, and 95,000 common shares are reserved under employee stock options exercisable at various dates to November 2, 1969 at 75c per share.

During the year 25,499 common shares were issued at 75c per share on the conversion of 6% convertible debentures.

At June 3, 1967 quarterly cumulative dividends payable on 9,198 6½% preferred shares outstanding were in arrears in the amount of $29.25 per share.

6. Expenses

Other expenses include $65,058 (1966—$58,250) for remuneration of senior officers of the Company, including two director officers. No amounts were paid in either year to those directors who are not officers.

7. Income Taxes

Income taxes otherwise payable for the year have been eliminated by claiming depreciation for tax purposes and the application of losses of prior years.

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## Auditors' Report

AUDITORS' REPORT TO THE SHAREHOLDERS

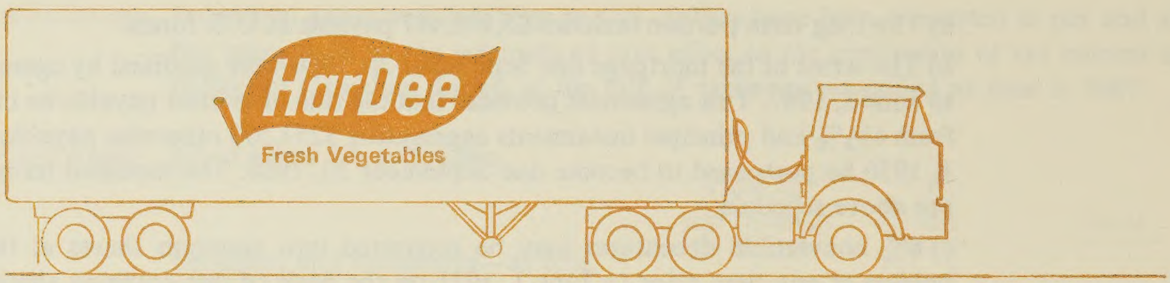
We have examined the consolidated balance sheet of Hardee Farms International Ltd. and subsidiaries as at June 3, 1967 and the consolidated statements of earnings, deficit and source and application of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Depreciation has not been provided in the current and three preceding years. Had depreciation been recorded in these years at normal rates, earnings for the current year would have been reduced by approximately $95,000 and both accumulated depreciation and deficit increased by approximately $710,000.

Subject to the foregoing qualification, and to the fact that, as stated in note 3, assets held for sale are carried at amounts which may not necessarily represent realizable values, in our opinion, the accompanying consolidated balance sheet and consolidated statements of earnings, deficit and source and application of funds, when read in conjunction with the notes thereto, present fairly the consolidated financial position of the companies as at June 3, 1967 and the consolidated results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

McDONALD CURRIE & CO.
*Chartered Accountants*

*August 8, 1967*


HarDee
Fresh Vegetables

Printed in Canada